A Keynote Address by

Mr. Bolaji Balogun,

Chief Executive Officer, Chapel Hill Denham

at the

7th Annual Christopher Kolade Lecture on Business Integrity

Organized by

The Integrity Organization Limited (Gte)

The Lekki Coliseum, Lekki, Lagos

Friday June 28, 2019

Protocols

Your Excellency, Prof. Yemi Osinbajo, SAN, GCON, I am inspired by your commitment to building a better Nigerian economy for all Nigerians. I wish to thank the organizers for inviting me to speak at this 7th Christopher Kolade Lecture. I am grateful to the Convention for Business Integrity/Integrity Organisation Limited for organizing this annual lecture in honor of Dr. Kolade, CON, a most distinguished Nigerian who has lived a life of integrity and service to Nigeria. I want to associate myself with the excellent work the CBI, its founders and leadership do to elevate the standards of integrity in Corporate Nigeria and Nigeria.

I will try not to disappoint you by speaking to truth and I feel safe to do that, knowing that I am speaking before the CBI and that if you are present you are a key stakeholder in the enterprise "Nigeria Plc". I start on this premise in the hope and belief that you have invited me today because you trust that I will speak frankly. I believe that integrity is at the foundation of anything that will grow, sustainably.

- **The Best Governed Corporates**

I would like to start by talking about one of the best run corporates globally called JP Morgan. JP Morgan has more than 250,000 employees in over 100 countries globally. All these employees are paid more than the minimum wage, paid on time, with benefits, they all receive healthcare cover, have access to mortgage finance and all get pension contribution and so retirement cover. All of JP Morgan's staff work in proper office space, and there is a consciousness about health and safety. JP Morgan's financials are disclosed quarterly, and their annual numbers are reported in most years on the 16th January, for a company with a December year end. The business is constantly communicating its strategy and the plans to achieve that strategy in the near to medium term to investors and creditors. JP Morgan has a documented governance structure and penalties for short-circuiting these. On top of that, they pay governments lots of taxes and are a leader in sustainability commitments. JP Morgan invests substantially in building and maintaining its brand and reputation.

- **We are all invested in the Enterprise "NIGERIA PLC"**

Nigeria Plc has well over 250,000 employees and by Nigeria Plc, I include both Federal and State governments. Many are not paid over minimum wage, often are not paid on time, most do not get healthcare cover and pension contributions are not paid on time, or not at all. Many do not work in good office spaces and there appears to be limited attention to health and safety regulations being in place for many offices. Nigeria Plc does not disclose its annual numbers on time and our strategy is perhaps not well articulated along with the plans for delivering the strategy in the medium term. One would also argue that there is limited investment in our sustainability commitments. We do not appear to invest in building the Nigerian brand. This is not a criticism of one Administration but a reflection of perhaps the last quarter of a century.

Let us compare that against some of the best run public companies in Nigeria. As an example, Dangote Cement, MTN Nigeria, Nigeria Breweries, Nestle, GT Bank, Zenith Bank, Access Bank and Unilever. They have thousands of employees and these companies all deliver standards that are much closer to best practice with well governed global corporates. They report their numbers before the 31st of March. They have well run office spaces with attention to health and safety regulations, pay well over minimum wage, offer health insurance and have pension contributions for all their employees. They all develop and communicate clearly a credible medium-term strategy and their plans to investors and creditors. They are all serious about sustainability and the future. They take seriously the need to invest in building and developing their brand.

Many other countries have travelled our journey over the last quarter of a century. I will refer to just a few, namely Singapore, China, India and Indonesia. There are many good things that we can learn from their journey but the one consistent theme across all these countries is understanding the importance of focusing on commercializing and optimizing the government's balance sheet. Additionally, there has been a clear understanding of the importance of Markets, and a recognition of the primacy of private capital and an urgent focus on delivering rapid inclusive growth.

<u>What must we do to make Nigeria Plc, one of the next Champions of the Global Economy?</u>
I believe we must start with a frank and honest assessment of our current realities, focus on a deliverable strategy with a few key priorities with significant linkages that can trigger inclusive, double digit growth, create opportunities for Nigeria's youth and deliver millions of new jobs.

- **Nigeria must embrace markets as on its own, it cannot afford the bill**

The realities are-

This year's budget, our biggest ever budget of N8.92 trillion or $24.8 billion is under 6% percent of GDP. When you include the states budgets, it is around 14% of GDP. The rest of the economic activity in Nigeria's $418 billion GDP is all private sector. 70.9% of the federal budget is spent on government's recurrent expenditure and debt service, of the balance many analysts estimate we could spend somewhere between N3.6-N5 trillion on 3 things, subsidizing the exchange rate, subsidizing petrol and subsidizing electricity. Actually, we describe it as subsidy, the reality of it is something else. We appear to fail to recognize the need and opportunity to utilize that government wallet in a way that triggers inclusive double-digit growth. If all of that N3.6-5 trillion or $10-14 billion dollars was spent on infrastructure, both economic and social, in other words including both education and healthcare, as well as on education, we will deliver inclusive double-digit growth.

One must acknowledge, that over the last couple of years, there has been an increased prioritization by the Buhari Administration of spend on infrastructure but because we appear not to value or appreciate the potential benefits of collaboration between private capital and the government in infrastructure we may not have gotten any leverage at all, on the increased government commitment to infrastructure. We have committed upwards of $650 million dollars in the Presidential Infrastructure Fund which is being spent on a handful of worthwhile road and power projects. In some of the countries I mentioned and across the GCC Region, they might have invested $650 million slightly differently. How? That $650 million dollars would have represented 25% of the equity and the equity would have been 25% of the project financing. They would have created a process to attract the best infrastructure sponsors and developers globally to pitch for a 75% stake with a clear commitment to list at some agreed point and sell down 24% to domestic institutions and individuals. In other words, the government's $650 million dollars could have catalyzed and financed $10.4 billion dollars of infrastructure and attracted therefore $9.75 billion dollars of private sector equity and debt capital creating a leverage effect of 15 times. In the old days, we called this public-private partnership. In today's vocabulary it is a form of blended finance. Many of the world's leading infrastructure developers and brands regard Nigeria as one of the world's most exciting infrastructure opportunities and with a properly designed strategy and business case, we would attract so much infrastructure investment capital. We therefore need to use the government balance sheet strategically to catalyze sizeable international and domestic private capital.

- **Pushing Water Uphill**

It is important to accept the fact that markets represent reality and we should not fear the markets and private capital. Markets are not "right" 100% of the time but they reflect a reality that we must live with and fighting the markets is like pushing water uphill. The best companies in our markets must not become 'constant targets', as they have a remarkable ability to contribute to developing a sustainable, productive and growing Nigeria. They also have a remarkable capacity to attract further investments, which creates JOBs. Markets have the ability to provide substantial capital to support Nigeria's development, if the investment case adds up.

There are 3 areas in Nigeria Plc's investment thesis that do not add up and which we should pay urgent attention to, if we want to be supported in our investment case.

1. We must urgently consider fixing this scenario of multiple exchange rates. Across the world, there are countries that have an official exchange rate and a parallel or black market rate that are different, but we should not be mentioned in the same breath as Venezuela.
2. We spend over N1 trillion annually subsidizing petrol consumption, so that petrol should be sold at N145 per litre. It is a bad use of capital and as a subsidy it does not redistribute fairly at all. The reality in our country is that you cannot buy petrol in many places outside of Lagos and Abuja anywhere close to the subsidized rate. Why not reallocate those precious funds to the infrastructure allocation that will be beneficial to the entire Nation?
3. In Power, the reality today is that a cost reflective tariff (which is necessary to encourage investment into the sector) is much cheaper than the alternative for most of us, which is the per kilowatt cost of using diesel in a generator. We keep filling the financial gap for the Discos and GenCos which are less than 5,000 megawatts of power, when we should be liberalizing tariffs and investing for the next 50,000 megwatts. We must learn from our prior experience and how we dealt cost-reflective tariffs in mobile telecommunications in 2001

Why is it challenging to do what is in our long-term advantage? If we took away the subsidies, the government would free up resources for investing in two critical areas of infrastructure and education, which will provoke the double-digit growth.

Government Concessions, JVS, Contractors must list – Debt & Equity

Markets are critical for governance. I would be the first to acknowledge that our companies, collectively, can improve their corporate governance standards. And there are lots of ways of measuring and evaluating good governance, but I think investors seek 3 fundamental foundations to corporate governance: (1) thorough and timely financial reporting; (2) no or minimal related party issues; and, (3) protection of minority interests. There are several examples of Nigeria's companies not meeting these 3 basic governance premises. I believe, the direction of travel and the attention and focus these governance issues are receiving is resulting, year on year, in demonstrable progress. One area we could improve dramatically is the interface between Government and Corporates. Nigeria needs to think about how every winner of a government concession, license, contract or Joint Venture partner should be required, as part of the contract, to list on Nigeria's capital markets. <u>Listing securities does not need to mean selling shares; it could simply mean listing debt.</u>

It is common globally for winners of government licenses in telecommunications, or broadcasting, or oil and gas Joint venture, or beneficiaries of long-term gas feedstock contracts to list securities on exchanges in their countries. Indeed, Saudi ARAMCO, probably the world's largest and richest state-owned company now issues bonds on global markets. Why does NNPC, not do the same?

What issuing and listing will do is to bring a discipline to report quarterly, provide transparent and regular financial disclosure and cause investors to ask sometimes, uncomfortable but necessary questions and as a result improve the quality of operations, disclosure and sustainability.

If everyone who wins a government contract had an obligation to issue securities on Nigeria's capital markets, I predict that significant contract price reduction would occur, greater transparency would occur and a greater focus on cost of capital would provoke better procurement for government and thus all of us. All of these companies would need to get a credit rating and would benefit from improved governance.

Rapid, significant investments in Infrastructure and Education will develop a productive Nigeria Plc

We have a population estimated at 200 million people and this is growing at around 3% annually. We therefore need to be grow the economy much faster than that and probably in double digits annually for the next decade. If we achieve that growth for a decade, we can lift a 100 million Nigerians out of poverty. Increasingly, there is enough empirical work globally suggesting that large demographics alone without productivity will not guarantee sustained economic growth. No country has achieved rapid, inclusive economic growth without a sustained and rapid acceleration of investment into infrastructure and literacy levels in the region of 70-80%.

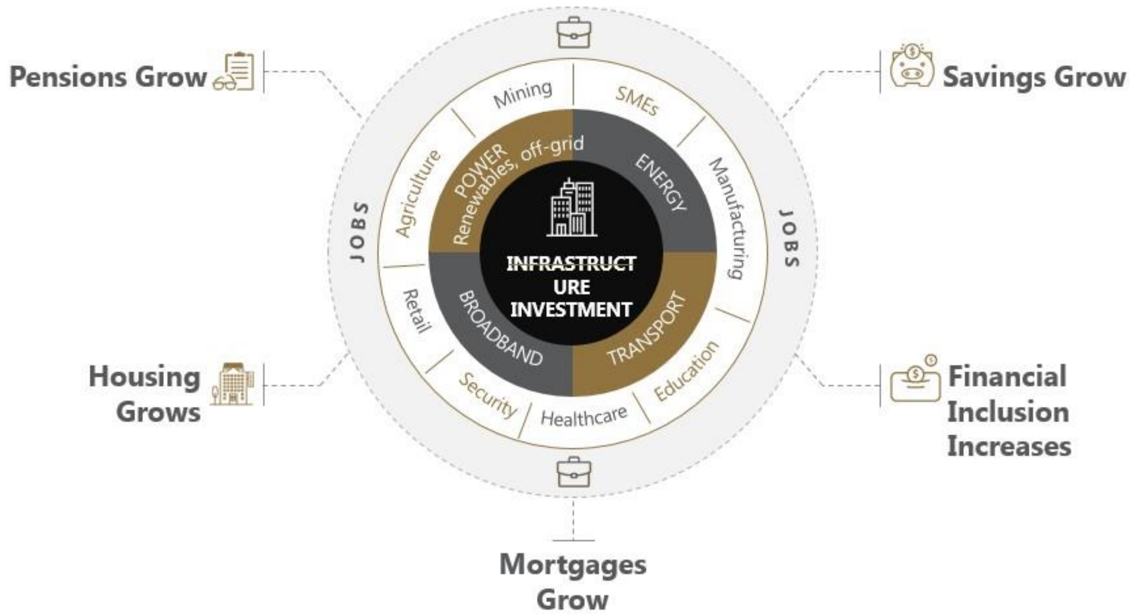
On average Nigeria has spent less than $3 billion dollars a year on infrastructure in most years in the last decade. How do I surmise this? I would start of by defining infrastructure as economic and social infrastructure, therefore including the much needed infrastructure for education and healthcare. When we add the total capex commitment for the Ministries of Power, Works, Housing, Transportation, Education and Health, we end up in the same zip code. If we then understand that those sums include motor vehicles, computers and other things described as capital goods, the entire capital or infrastructure spend of the federal government which receives over 50% of our revenue is less than $2 billion dollars a year. <u>It is therefore obvious where our development conundrum lies.</u> Only if infrastructure investment grows by 15 to 20 percent a year can we reach 10 percent economic growth. Ask the Chinese, they have been able to deliver this on a much larger base.

What, therefore, must we do? We must recognize a need to create the right enabling environment for attracting 30-40 billion dollars of capital into infrastructure every year for the next 5- 10 years, and when we do so we will have laid the foundation for inclusive growth in Nigeria. And that 40 billion dollars of investment can be delivered with no more than a 5-billion-dollar commitment annually from the federal government into a funding model for infrastructure that “Blends” that capital with private capital and prioritizes:

1). power, 2). gas pipelines and networks, 3). Transportation, 4). Broadband infrastructure and 5). Social infrastructure

This is possible and deliverable but not under our current approach. If we make those investments into infrastructure what it will do is to create jobs. We need to realize that it is investments, not governments that create jobs. And with those investments, we will create jobs, increase demand for housing, savings. Pensions will grow, and it will encourage financial inclusion.

Infrastructure Investing is critical for creating Nigeria's sustainable prosperity

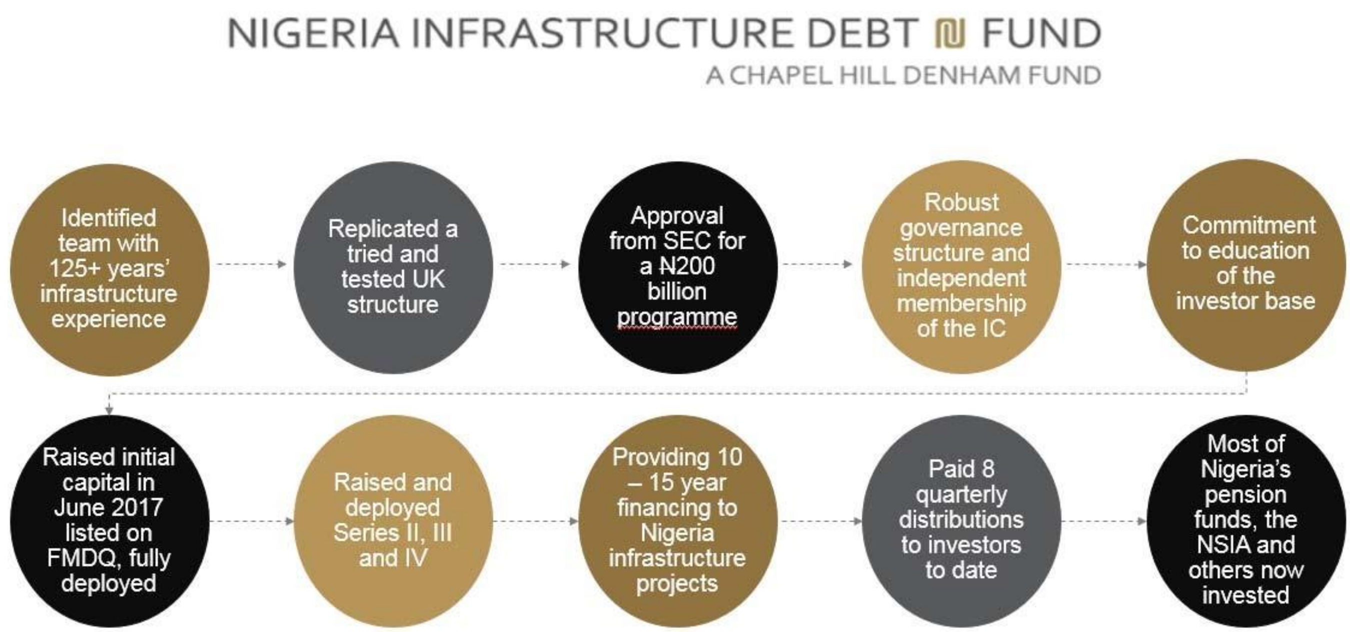


The other critical area that needs investment is education. A country with 200 million people that has an average age of 18 has a moral and necessary obligation to educate them properly and prepare them for the future. There is also significant empirical work done on the correlation of 70 – 80% increased literacy rates, for a nation to grow sustainably and industrialize. Of the 40 countries with adult female or male literacy rates below 70% there is not one where manufacturing reaches 20% of value added in the economy. Vietnam and Sri Lanka are over 80% literacy, India is at 72%. North Africa is above 70%, in East Africa, Tanzania 80% and Kenya 78%, Rwanda and Uganda over 70%. South Africa, Zambia and Zimbabwe have over 80% literacy rates. Only Ghana at 77% and Cape Verde at 85% are above 70% in West Africa. Nigeria with 60% literacy suggests we will struggle to industrialize in a large scale manner, although there are significant regional differences, with the North-East lagging and some parts over 80%. There is significant empirical evidence to suggest that countries with low significant adult literacy rates are not the focus of many global and financial market investors, and many are beset by conflict and unrest. The key message in this data is that investing in education is a core goal with any nation that wants to invest in sustainable growth and wants to industrialize. I believe that a combination of literacy and the beginning of Industrialization and rising per capita GDP will favorably impact our demographics into sustainable productivity.

We need to urgently create a government partnership with private capital and many employers will all have a big stake in Nigeria's improved education metrics. This education Marshall Plan needs to be focused on the following key areas:

- A new national education curriculum including vocational education
- Teacher training
- Educational infrastructure including boarding facilities
- Learning and teaching aids including virtual education
- At all levels, particularly elementary, school feeding programs

In conclusion, I do not like just to talk, I also like to get up and do things. Over the last five years one of the key things I have done is to refocus our business on work that is critical to Nigeria's economic development. We created the Chapel Hill Denham Nigeria Infrastructure Debt Fund, a naira denominated fund dedicated to financing infrastructure in Nigeria. Every G20 country finances its infrastructure in their local currency, Nigeria needs to transition from financing infrastructure in dollars and we are at the forefront of that transition.



We have raised money from institutional investors including our PFA's and insurance companies and qualified individual investors, successfully four times and we are currently on our fifth fund raising. We have created strong governance and we report quarterly. We have replicated a tried and tested UK model and have been supported by our investors. We are the only source today of 10 to 15-year naira for infrastructure projects. By listing on FMDQ we have created liquidity in an access class that is illiquid, strengthened domestic capital markets and enabled a wider range of investors to invest in infrastructure. We are doing the same in other areas including in Real estate, in SMEs with a focus on Women and Youth and ultimately in Education and Healthcare.

I truly believe in conclusion, that most of Nigeria's development challenges have solutions in Markets and ultimately, the best governed markets, with public and corporate leadership who care not only about profits but also people and the planet, will deliver growth and a thriving and sustainable economy.

Thank you all for listening and God bless!

Bolaji Balogun